



**U.S. Department of Justice**

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*Eastern District of Pennsylvania*

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FOR IMMEDIATE RELEASE

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## **OFFICERS OF CHILDREN'S CLOTHING COMPANY CHARGED IN \$35 MILLION FRAUD**

PHILADELPHIA – United States Attorney Patrick L. Meehan today announced the filing of an indictment<sup>1</sup> charging Joseph J. Connors, Jay Andrews, and Richard Shaffert with one count of bank fraud and 65 counts of giving false statements to a bank in connection with a loan. The defendants were officers of Kleinert's, Inc., a children's clothing company with corporate offices in Plymouth Meeting, Pennsylvania. Connors was, at different times, the Chief Financial Officer and the Chief Operating Officer; Andrews was the President and head of sales; and Shaffert was a financial assistant to Connors and later the Vice President of Finance and Chief Financial Officer.

During the time of the alleged fraud, Kleinert's ran its operations with the assistance of significant financing, up to \$68 million, from a consortium of banks, including First Union Bank (later Wachovia Bank), HSBC Bank USA, National City Bank, and Fleet Bank ("the Banks"). The financing was provided pursuant to loan agreements which required Kleinert's to submit regular financial reports. The indictment alleges that between in or around July 2001 through in or around February 2003, the defendants defrauded the Banks in connection with the parties' loan agreements. In order to continue to obtain funds from the Banks, the defendants provided false financial information to the Banks that falsely inflated the financial condition of the company and disguised the company's financial problems. In particular, at the end of fiscal year 2001, the defendants created approximately \$10 million in fictitious sales and an additional bogus \$1 million receivable that positioned the company to obtain additional financing.

The defendants continued to make numerous false statements and financial misrepresentations to the Banks in 2002 and 2003. They characterized the fraudulent sales as legitimate receivables on Kleinert's reports to the Banks, altered the financial figures in the reports to the Banks, and engaged in loan transactions which they disguised and concealed from the Banks.

"All of these misrepresentations falsely improved the financial condition of the company and allowed Kleinert's to continue to obtain funding from the banks," said Meehan.

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<sup>1</sup> An indictment or information is an accusation. A defendant is presumed innocent unless and until proven guilty.

As a result of the fraud, the Banks continued to fund Kleinert's when they were not required to and lost approximately \$35 million when they sold Kleinert's assets after the company filed for bankruptcy.

The defendants face the following maximum prison sentences: Connors – 1,980 years in prison; Andrews – 1,230 years in prison; and Shaffert – 240 years in prison.

The case was investigated by the Federal Bureau of Investigation and has been assigned to Assistant United States Attorney Louis D. Lappen.

#### INFORMATION REGARDING THE DEFENDANT

NAME	ADDRESS	AGE
Joseph J. Connors	Bluebell, PA	49
Jay Andrews	Louisville, KY	61
Richard Shaffert	Doylestown, PA	58

The case has been assigned to Assistant United States Attorney LOUIS D. LAPPEN.

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